

Fairfax County Economic Index

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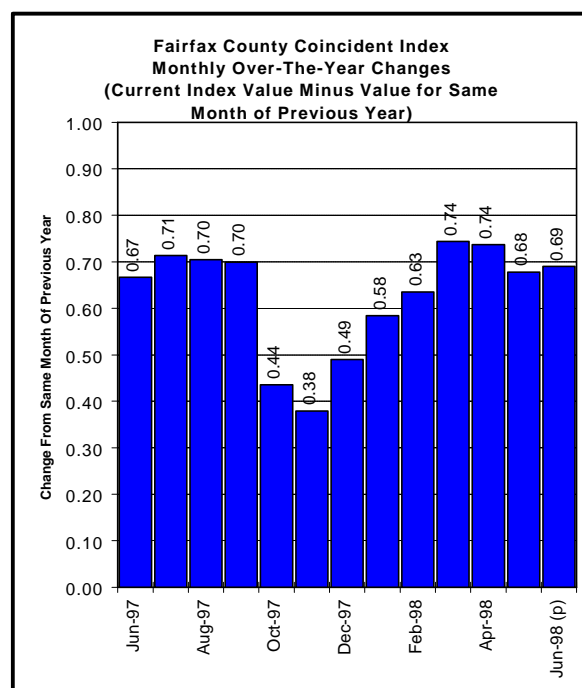
AUGUST 1998

Economy Steady in June While Future Growth Rate May Be Trending Lower

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, was unchanged in June from its May value of 103.85 and has now been basically steady for two consecutive months. In June, three of the Index's four components were down from their May values but their weak performances were offset by a strong gain in retail sales.

- Total employment decreased slightly from May reversing an eight-month record of monthly gains;
- Transient Occupancy Tax collections decreased in June following seven monthly gains; and
- Consumer confidence slipped after increasing for four consecutive months; but
- Retail sales tax receipts increased following May's decline and have now been up in three of the past four months.

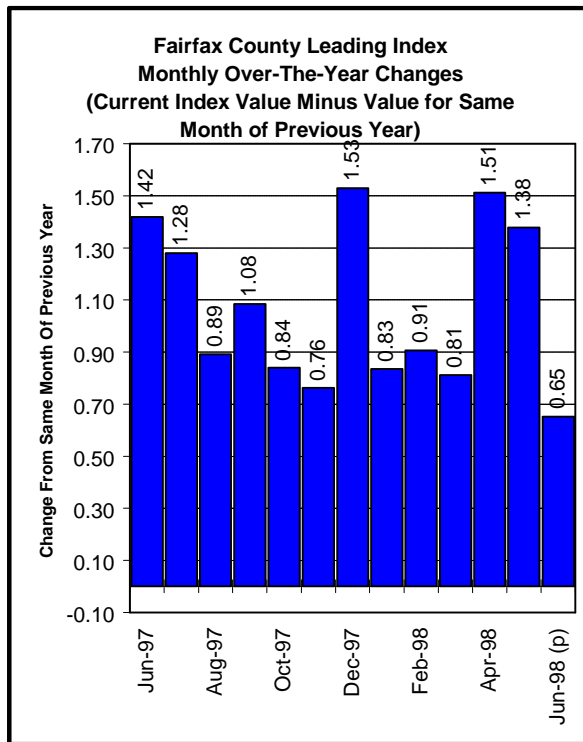
The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy 9 to 12 months in advance, declined for a second month to 104.92 and has now decreased in four of the last five months. While the Leading Index is up slightly for the year, its recent performance appears to be pointing to slower economic growth in the coming months and into early 1999. In June, the weak performance of four



Source: GMU Center for Regional Analysis.

of the Index's five components contributed to its decline.

- New automobile registrations declined for a second month and for the fifth time in the last six months;
- Initial claims for unemployment insurance increased (worsened) after improving in the previous two months;



Source: GMU Center for Regional Analysis.

- Consumer expectations (consumer confidence six months hence) fell following two monthly gains; and
- The mean value of residential building permits fell for the second month in a row and for the fourth time in the last five months; however
- Residential building permits increased sharply and have now gained in four of the last five months.

The volatility and trending of the Leading Index provide reinforcing evidence that the County's economy has plateaued, at least temporarily, and may begin to slow its rate of growth during the second half of the year. These indicators may also be pointing to a slower growth path for the economy during the early months of 1999.

CURRENT CONDITIONS

The Fairfax County economy stabilized in May and June after expanding in each of the previous five months. However, while the Coincident Index remained unchanged in June, it

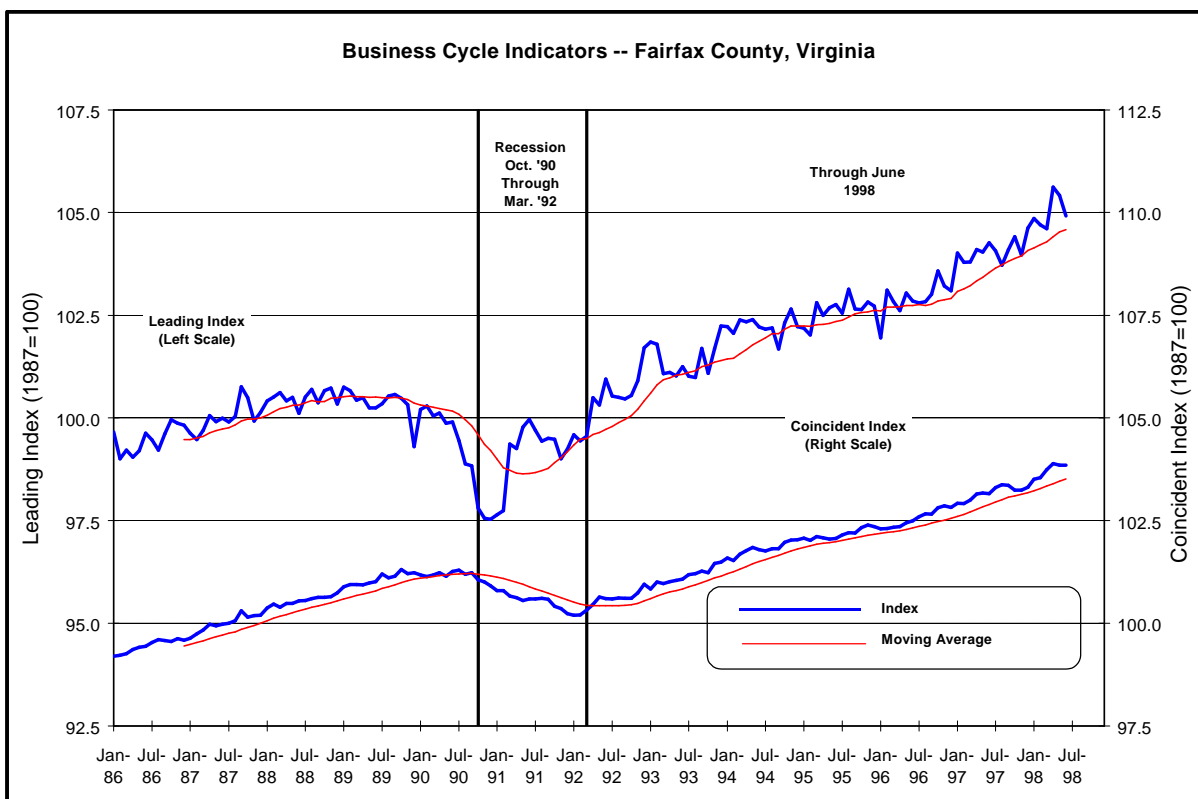
was up substantially from its June 1997 level with all of its components also being up strongly over this twelve month period. This pattern of performance reflects an economy at or near its peak conditions but whose rapid growth rate has begun to decelerate, at least temporarily. Over the last twelve months, the County's economy sustained substantial growth and, during the second quarter of 1998, it achieved and maintained its highest level of performance. However, at mid-year, the indicators are showing signs of softening.

Driving this growth has been a strong hospitality industry with revenues running 25 percent ahead of last year (which was a good year), and strong consumer retail spending, which was up 15 percent from June 1997, a gain substantially out-pacing the 8.9 percent increase in retail sales nationally.

However, the true measures of the economy's health and strength are its continuing low 1.7 percent, seasonally adjusted, unemployment rate (down from 2.3 percent a year ago) and its strong rate of job creation. Compared to June 1997, the County has added 19,282 new jobs for a 4.3 percent gain, well ahead of the nation's strong job growth rate of 3.1 percent. The ability to generate jobs at a substantially greater rate than the national economy underscores the competitive advantages that have positioned the County's economy for an almost unbroken chain of monthly gains dating back to the beginning of 1992.

While the County's economy has performed well over the past year and has registered strong gains during the year's first half, June's performance revealed some slight softening from April's peak. That three of the Coincident Index's four components were down slightly from May while just two months ago, in March and April, all four components were positive, is a clear signal that the economy has peaked.

Furthermore, the national economy registered a substantial drop off in its performance during the second quarter and is projected to grow much more slowly over the remainder of the year than it had at the beginning. This general weakening of the national economy may slightly dampen the County's future economic growth.



Source: GMU Center for Regional Analysis.

NEAR-TERM OUTLOOK

The softening in the County's economy reflected in its June coincident indicators was even more clearly seen in the economy's leading indicators. For the second month in a row, the Leading Index was down slightly and its components were broadly lower although none were off sharply. With both consumer confidence (in the present) and expectations (confidence six months hence) off in June and with growing uncertainty in Asia's financial markets being reflected in a recent sell off in the U. S. stock markets, it is likely that the County economy will reflect some of these external forces and trend slightly lower over the next several months. This softening in the County's economic performance will not be as great as the expected slowdown in the U. S. economy but this slower national growth is likely to be reflected in the local economy's performance in the coming year.

Whether this mid-year retreat of the leading indicators carries beyond the summer

months is the key to the longer term outlook. Typically, the County's economy benefits from a fall bounce with stronger consumer spending and an uptick in housing sales in September and October. This pre-holiday performance of the economy should be watched carefully as it will provide the next strong signal regarding the play out of the seven-year long economic expansion and the economy's outlook for 1999.

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We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-98 Prelim.	May-98 Final	Jun-97 Final	May-98 to Jun-98	Jun-97 to Jun-98
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	103.85	103.85	103.16	0.00	0.67
Leading Index (1987 = 100)	104.92	105.41	104.27	-0.47	0.63
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	468,122	469,020	448,840	-0.19	4.30
<i>Total Covered Employment (Unadjusted)</i>	<i>474,830</i>	<i>469,653</i>	<i>455,272</i>	<i>1.10</i>	<i>4.30</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	340.4	341.9	279.2	-0.43	21.93
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>433.9</i>	<i>483.8</i>	<i>347.0</i>	<i>-10.30</i>	<i>25.05</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,496.7	7,075.2	6,519.8	5.96	14.98
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,611.3</i>	<i>8,551.5</i>	<i>8,669.4</i>	<i>12.39</i>	<i>10.86</i>
South Atlantic Consumer Confidence	174.1	175.9	161.8	-1.02	7.60
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,274	5,300	5,432	-0.48	-2.89
<i>Automobile Registrations (Unadjusted)</i>	<i>5,941</i>	<i>5,850</i>	<i>6,118</i>	<i>1.56</i>	<i>-2.89</i>
Initial Unemployment Claims (Seasonally Adjusted)	806	530	801	51.93	0.66
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>765</i>	<i>486</i>	<i>760</i>	<i>57.41</i>	<i>0.66</i>
South Atlantic Consumer Expectations	118.7	120.6	116.1	-1.58	2.24
Residential Building Permits (Number of Units, Seasonally Adjusted)	779	521	421	49.64	84.91
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>882</i>	<i>549</i>	<i>477</i>	<i>60.66</i>	<i>84.91</i>
Average Residential Building Permit Value (\$='87 Per Unit, Seasonally Adjusted)	60,901	65,471	78,849	-6.98	-22.76
<i>Average Residential Building Permit Value (\$=Current Per Unit, Unadjusted)</i>	<i>84,659</i>	<i>88,332</i>	<i>108,874</i>	<i>-4.16</i>	<i>-22.24</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	536,852	536,271	527,833	0.11	1.71
<i>Total Labor Force (Unadjusted)</i>	<i>545,141</i>	<i>538,405</i>	<i>535,983</i>	<i>1.25</i>	<i>1.71</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.72	1.53	2.30	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.93</i>	<i>1.54</i>	<i>2.58</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Average Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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